

AXIAL VECTOR ENGINE CORP
Form 10QSB
May 22, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: **March 31, 2007**

Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period _____ to _____

Commission File Number: **000-49698**

Axial Vector Engine Corporation

(Exact name of small business issuer as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-3362479

(IRS Employer Identification No.)

One World Trade Center

121 S.W. Salmon Street, Portland, Oregon 97204

(Address of principal executive offices)

503-471-1348

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
36,303,096 common shares as of January 23, 2007.

Transitional Small Business Disclosure Format (check one): Yes No

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Our unaudited consolidated financial statements included in this Form 10-QSB are as follows:

| | |
|-----|--|
| F-1 | Consolidated Balance Sheets as of March 31, 2007 (Unaudited) and March 31, 2006 (Restated); |
| F-2 | Consolidated Statements of Operations for the three and nine months ended March 31, 2007 and 2006 (Restated) with Cumulative Totals Since Inception (Unaudited); |
| F-3 | Consolidated Statement of Changes in Stockholders' Equity for the nine months ended March 31, 2007; |
| F-4 | Consolidated Statements of Cash Flows for the three and nine months ended March 31, 2007 and 2006 (Restated) with Cumulative Totals Since Inception (Unaudited); and |
| F-5 | Notes to Consolidated Financial Statements. |

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-QSB. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended March 31, 2007 are not necessarily indicative of the results that can be expected for the full year.

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AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
March 31, 2007 AND 2006 (Restated)
(Unaudited)

| | March 31, 2007 | March 31, 2006 (Restated) Note 2 |
|---|-------------------|--|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,319 | \$ 5,880 |
| Deposit | 22,670 | 22,670 |
| Due from employee | 1,000 | - |
| Prepaid expenses | 15,000 | - |
| Total Current Assets | 39,989 | 28,550 |
| Property and equipment, net (Note 5) | 142,143 | 38,861 |
| Due from shareholder | 10,000 | - |
| Intangible assets- patents, net | 243,838 | 243,324 |
| TOTAL ASSETS | \$ 435,970 | \$ 310,734 |
| <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u> | | |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,029,849 | \$ 624,466 |
| Payroll tax liabilities | 99,192 | - |
| Current portion of note payable (Note 6) | 1,253,795 | 1,245,000 |
| Contingent share-based payment (Note 7) | - | - |
| Liability for stock to be issued (Note 8) | 190,327 | 946,262 |
| Share-based fee liability- warrants (Note 9) | 2,084,884 | 6,351,895 |
| Share-based fee liability- options (Note 10) | 2,856,220 | 3,234,668 |
| Share-based compensation liability- options (Note 11) | 5,615,400 | 8,428,460 |
| Accrued interest - shareholder loan (Note 13) | 101,200 | 69,565 |
| Due to related company (Note 12) | 301,339 | 301,339 |
| Total Current Liabilities | 13,532,206 | 21,201,655 |
| Note Payable (Note 14) | 41,468 | - |
| Due to shareholder (Note 13) | 956,577 | 835,694 |
| Total Liabilities | 14,530,251 | 22,037,349 |

STOCKHOLDERS' DEFICIT

| | | |
|--|---------------------|---------------------|
| Preferred stock, \$.001 par value; 100,000,000 shares authorized no shares issued and outstanding | - | - |
| Common stock, \$.001 par value; 100,000,000 shares authorized 36,785,136 and 34,554,771 shares issued and outstanding (Note 15) | 36,733 | 34,605 |
| Additional paid-in capital | 23,886,704 | 20,940,517 |
| Prepaid share-based fees (Note 16) | (1,832,154) | (2,781,743) |
| Prepaid share-based compensation (Note 16) | (27,125) | (678,125) |
| Beneficial reduction of share-based liability (Note 17) | 13,528,016 | 4,898,109 |
| Deficit accumulated during the development stage | (49,686,455) | (44,139,978) |
| Total Stockholders' Deficit | (14,094,281) | (21,726,614) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 435,970 | \$ 310,734 |

The accompanying notes are an integral part of these consolidated financial statements.

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AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2007 AND 2006 (Restated)
(WITH CUMULATIVE TOTALS SINCE INCEPTION)
(Unaudited)

| | For the Three Months Ended March 31, 2007 | For the Nine Months Ended March 31, 2007 | For the Three Months Ended March 31, 2006 | For the Nine Months Ended March 31, 2006 | Cumulative Totals December 30, 2002 through March 31, 2007 |
|---|--|--|---|--|--|
| SALES | \$ - | \$ - | \$ - | \$ - | \$ - |
| COST OF SALES | - | - | - | - | - |
| GROSS PROFIT | - | - | - | - | - |
| OPERATING EXPENSES | | | | | |
| Accounting and auditing | 8,050 | 230,686 | 2,993 | 21,370 | 328,591 |
| Administration | 656 | 3,340 | 9,770 | 12,755 | 153,857 |
| Advertising, promotion, consulting and travel (Note 18) | 192,099 | 996,991 | 601,952 | 2,453,759 | 7,942,535 |
| Beneficial share-based fee (Note 19) | 139,272 | 417,816 | 139,272 | 417,816 | 2,427,304 |
| Board compensation (Note 20) | | 58,590 | 206,460 | 348,750 | 1,330,830 |
| Depreciation (Note 5) | 4,616 | 10,713 | 2,133 | 3,685 | 57,327 |
| Financing cost - standby equity agreement (Note 2) | - | - | - | - | 7,320,000 |
| Legal fees (Note 21) | 126,380 | 715,779 | 824,234 | 1,606,339 | 6,138,510 |
| Insurance | 11,145 | 47,370 | 19,360 | 31,362 | 94,235 |
| Interest | 17,299 | 33,225 | 1,116,206 | 1,893,829 | 167,391 |
| Office expense | 33,340 | 103,089 | 45,600 | 104,176 | 313,098 |
| Officers' compensation (Note 22) | 215,250 | 833,250 | 1,713,168 | 3,150,524 | 11,418,613 |
| Payroll taxes | 3,319 | 39,565 | 29,794 | 48,023 | 84,608 |
| Rent | 5,956 | 17,910 | 7,714 | 15,179 | 98,655 |
| Research and development (Note 23) | - | 238,395 | 788,577 | 2,028,428 | 5,187,964 |
| Salaries and wages-administration | 19,835 | 101,058 | 70,526 | 135,093 | 531,645 |
| Salaries and wages-engineering | 25,000 | 75,000 | 65,900 | 91,712 | 191,712 |

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| | | | | | |
|---|--------------|----------------|----------------|-----------------|-----------------|
| Impairment of intangible asset | - | - | - | - | 3,701,347 |
| Total Operating Expenses | 802,217 | 3,922,777 | 5,643,659 | 12,362,800 | 47,488,222 |
| NET LOSS BEFORE OTHER INCOME (EXPENSE) | (802,217) | (3,922,777) | (5,643,659) | (12,362,800) | (47,488,222) |
| OTHER INCOME (EXPENSE) | | | | | |
| Bank interest | (76) | (76) | - | 70 | (5) |
| Write off of worthless inventory | - | - | - | - | (266,519) |
| Refunds | 4,000 | (20,903) | - | 2,587 | (18,316) |
| Lawsuit settlements | - | - | (1,805,429) | (1,805,429) | (1,805,429) |
| Impairment of property and equipment | - | - | - | - | (107,964) |
| Total Other Income (Expense) | 3,924 | (20,979) | (1,805,429) | (1,802,772) | (2,198,233) |
| NET LOSS BEFORE PROVISION FOR INCOME TAXES | (798,293) | (3,943,756) | (7,449,088) | (14,165,572) | (49,686,455) |
| Provision for income taxes (Note 24) | - | - | - | - | - |
| NET LOSS APPLICABLE TO COMMON SHARES | \$ (798,293) | \$ (3,943,756) | \$ (7,449,088) | \$ (14,165,572) | \$ (49,686,455) |
| NET LOSS PER SHARE -BASIC (Note 4) | \$ (.04) | \$ (.04) | \$ (.08) | \$ (.28) | |
| NET LOSS PER FULLY DILUTED SHARES (Note 4) | \$ (.04) | \$ (.04) | \$ (.08) | \$ (.28) | |

The accompanying notes are an integral part of these consolidated financial statements.

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**AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2007 (Restated)
(Unaudited)**

| Description | Prepaid Shares & Beneficial Reduction Common | | Additional Paid-In Capital | Deficit Accumulated During the Development Stage | Total Stockholders' Equity |
|--|---|-----------|----------------------------------|--|----------------------------------|
| Balance, June 30, 2006-restated (Note 2) | \$ 9,428,959 | \$ 35,004 | \$ 20,988,208 | \$ (45,747,259) | \$ (15,295,088) |
| Issuance of shares for services | | 73 | 566,814 | | 566,887 |
| Reduction in prepaid shares | 400,148 | | | | 400,148 |
| Beneficial reduction in option value outstanding | 1,039,334 | | | | 1,039,334 |
| Issuance of stock for cash | - | 1,017 | 1,674,883 | | 1,675,900 |
| Net loss for the three months ended September 30, 2006 | | | | (1,801,086) | (1,801,086) |
| Balance, September 30, 2006 | \$ 10,868,441 | \$ 36,094 | \$ 23,229,905 | \$ (47,548,345) | \$ (13,413,905) |
| Issuance of stock for cash | - | 179 | 192,322 | | 192,500 |
| Issuance of stock for services | | 50 | 99,950 | | 100,000 |
| Reduction in prepaid shares | 400,148 | | | | 400,148 |
| Net loss for the three months ended December 31, 2006 | | | | (1,339,817) | (1,339,817) |
| | \$ 11,268,589 | \$ 36,323 | \$ 23,522,177 | \$ (48,888,162) | \$ (14,061,074) |

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| | | | | | | | |
|--|---------------|-----------|---------------|-----------------|----|-----------|--------------|
| Balance, December 31, 2006 | | | | | | | |
| Issuance of stock for cash | 145 | | 144,855 | | | | 145,000 |
| Issuance of stock for services | 265 | | 219,672 | | | | 219,938 |
| Reduction in prepaid shares | | 400,148 | | | | | 400,148 |
| Net loss for the three months ended March 31, 2007 | | | | | | (798,293) | (798,293) |
| Balance March 31, 2007 | \$ 11,668,737 | \$ 36,733 | \$ 23,886,704 | \$ (49,686,455) | \$ | | (14,094,281) |

The accompanying notes are an integral part of these consolidated financial statements.

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**AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY
(FORMERLY AERO MARINE ENGINE, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2007 AND 2006 (Restated)
(WITH CUMULATIVE TOTALS SINCE INCEPTION)
(Unaudited)**

| | Three Months Ended March 31, 2007 | Nine Months Ended March 31, 2007 | Three Months Ended March 31, 2006 (Restated) | Nine Months Ended March 31, 2006 (Restated) See Note 2 | Cumulative Totals December 30, 2002 through March 31, 2007 |
|---|--|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Net (loss) | \$ (798,293) | \$ (3,939,196) | \$ (2,846,655) | \$ 6,280,798 | \$ (|